

ELDER LAW AND DISABILITY RIGHTS SECTION

House Insurance Committee

November 13, 2012

Dear Mr. Chairman and Honorable Committee Members,

On behalf of the Elder Law and Disability Rights Section of the State Bar of Michigan¹ and its approximately 1,800 members, as well as the many thousands of clients its members represent, the Section states the following concerns regarding the valuation of the proposed foundation under SB 1293 and SB 1294 and the proposed distribution of its funds:

- **This legislation will cost Michigan Medicare beneficiaries over \$1.7 billion more than what BCBSM is contributing to the foundation.**

As part of its longstanding nonprofit commitment, BCBSM pledges about \$200 million a year to Michigan's seniors and individuals with disabilities through the Legacy Medigap plans.² This commitment would be eliminated on July 31, 2016 under SB 1293. Thus, from April 2014 until April 2032 (the 18 years of BCBSM's foundation payments), the legislation will cost Michigan's Medicare beneficiaries **well over \$3.2 billion in increased Medigap premiums** to maintain the same level of health coverage. Thus, the proposed \$1.5 billion in contributions to the foundation is **over \$1.7 billion less than the increased financial burden being placed on Michigan Medicare beneficiaries over this same period.**³

- **By eliminating its Medigap commitment alone, BCBSM more than pays for the foundation.**

While *some* of BCBSM's Medigap commitment is subsidized by other BCBSM products (and BCBSM has made no commitment to lower the rates on these products if this commitment goes away), much of BCBSM's Medigap commitment is paid by BCBSM directly. BCBSM reported that its Medigap commitment caused direct losses of \$87.7 million in 2008 – more than the average \$83.3 million in contributions that it proposes to pay the foundation in exchange for shedding this and other nonprofit commitments.⁴ **Thus, BCBSM's valuation will immediately go up by at least its \$1.5 billion in foundation contributions by simply getting rid of its Medigap commitments.** This suggests that the proposed foundation is undervalued.

¹ These views are those of the Section and do not necessarily represent the views of the State Bar of Michigan.

² In 2008, BCBSM stated this subsidy was worth \$202.9 million a year. Valuing the Social Mission Activities of Blue Cross Blue Shield of Michigan, Avalere Health LLC, January 2008, p. 1.

³ The \$3.2 billion is a very conservative estimate because it assumes no health care inflation or growth in the Medicare population. It also does not take into account the intangible value of every Michigander having access to affordable, first-class Medigap coverage regardless of age or health status.

⁴ Valuing the Social Mission Activities of Blue Cross Blue Shield of Michigan, Avalere Health LLC, January 2008, p. 1.

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- **The Senate's amendment requiring some of the foundation's funds to be used to subsidize Medigap plans between 2016 and 2021 is insufficient.**

In SB 1294, the Senate made a good faith effort to protect Medigap between 2016 and 2021, but the amount dedicated to Medigap is insufficient. Assuming BCBSM contributes \$83.3 million a year during this time (a commitment that BCBSM still has not made), only 50% of this contribution can be distributed to any cause each year under SB 1294. Of the approximately \$41.7 million that can be distributed, only 60% is designated for Medigap. Thus, only about \$25 million will be available to aid those hurt by the cuts to Medigap in Michigan. This is less than 12.5% of the current BCBSM commitment and may not even cover the increase in premium costs due to health care inflation or the increasing number of Medicare beneficiaries.

- **The foundation does not adequately compensate seniors and individuals with disabilities.**

Michigan Medicare beneficiaries stand to directly lose over \$3.2 billion if SB 1293 and 1294 are passed. Yet the foundation that is being created will barely benefit these individuals. SB 1294 lists eight different items that the foundation *shall* fund, but only one item directly relates to "senior citizens and individuals with disabilities." Only one of the thirteen board members represents the interests of seniors and none represent the interests of individuals with disabilities. While the proposed foundation is being created at the expense of seniors and individuals with disabilities, it offers little benefit to them.

Sincerely,



Bradley A. Vauter

Chair, Elder and Disability Rights Section of the
State Bar of Michigan